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Theoretical Basis and Strategy of Interbank Competition between Commercial Banks

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ABSTRACT

In this article, the theoretical foundations of the concepts of interbank competition and competitiveness between commercial banks are studied. In addition, a system for determining the most important elements of competitiveness and the optimal state of interbank competition is proposed.

KEYWORDS: *Competition, interbank competition, competitiveness, risk, liquidity, stability, banking strategy*

1. Introduction

Due to fundamental reforms in the financial and banking system, commercial banks have become a close partner and supporter of the population, especially businessmen. We can be sure of this once again after observing the success of our inquisitive and enterprising compatriots who have effectively used their funds and established business activities and made a worthy contribution to the abundance of our markets and the increase of the export potential of our regions. Of course, "all these achievements indicate that people's trust in banks is getting stronger".[2]

The development of competition between commercial banks increases their ability to offer competitive products. In addition, it was considered one of the important issues to bring the competition between banks into one system based on the concept of interbank competition in the banking market. In recent years, the sudden change in the conditions in the banking market does not provide an opportunity to determine the level of their competitiveness. As a result, even in countries that we consider economically stable, the crisis of banks still creates the need to conduct many studies in this field. In particular, it was reported that the major US banks "Silvergate, Silicon Valley Bank and Signature Bank stopped their activities." The failure of SVB Bank is the largest bankruptcy in the United States since the 2008 financial crisis. It is said that the reason for the collapse of SVB Bank was the increase in the discount rate of the US Federal Reserve, which led to the depreciation of the assets on the balance sheets of many financial institutions. After that, the US government announced measures to support banks. "[15]

Today, the demand of the time requires the introduction of bright and attractive types of services, using the factors that increase and strengthen the trust of the population in the banking system, first of all, ensuring the safety and integrity of the population's deposits, and the use of modern technology in business.

Based on the above, "in order to increase and strengthen the trust of the population in the banking system in order to ensure the stability of the banking and financial system, in order to ensure the safety and integrity of the population's deposits, the use of electronic cards, mobile communication (SMS-authorization) or biometric equipment for the population's deposits in the banking system as opportunities of modern technologies suggestions for use are reported. The purpose of this research work is to study the characteristics of commercial banks that are important in ensuring the superiority of commercial banks in the market of interbank competition.[13]

2. Literature review

As we mentioned above, in the research conducted in the field of creating an environment of inter-bank competition, these new banking technologies are considered to be the most important elements. Of course, the most important direction in the development of competition in each field is the wide application of information technologies in the field. Therefore, it is possible to properly organize the market activity mechanism by applying new banking technologies in the interbank competition market. In the digital economy, the introduction of information technologies is becoming one of the important factors affecting the development of all sectors of the economy. The impact of this factor on the competition in the banking sector is manifested first of all. Of all, "under the influence of the characteristics of banking services, A. As Krivoshchekin correctly noted, "digitalization will fundamentally change the landscape of the banking sector. with the help of digital technologies, banks can customize services for each individual's needs.[7]

In the theoretical views studied in this field, the main attention is focused on the main mechanisms of the emergence of interbank competition. In particular, " Interbank competition is a multifaceted economic category, which is fundamentally different from the formation of the competitive environment in other markets. The characteristics of interbank competition are as follows: interbank competition, although it appeared late compared to competition in the field of goods production and service, is growing at a steady pace; non-bank financial and credit institutions participate together with banks in the interbank competition market; in the market of interbank competition, banks participate in one case as a seller, and in the other as a buyer, the banks of our republic currently participate in the competition market only as a buyer of credit resources. Each branch of banking has its own special characteristics, which allows for intense competition; • limitation of price competition, which, first of all, creates a problem in improving the quality of bank service management and organizing advertising; • the market of banking services is an oligopoly stratified market, which increases the ability of corporations and credit institutions to conduct market policy. [4]

There are different views on the theoretical basis of the use of different coefficients in the assessment of competitiveness. In particular, "the competitiveness coefficient of commercial banks depends more on the following factors: bank image; its

image plays an important role in determining the main characteristics of commercial banks in the financial market. Definition policy. The different appearance of definitions allows to increase the level of its service.

Location of the bank. The opening of the bank in a place convenient for customers increases the convenience of its service to customers. Investment attractiveness. This allows to determine the reliability of financial instruments when determining the indicators of the proposed bank.[12]

The lack of a healthy competitive environment in the interbank market has a negative impact on the quality of financial services provided by banks.

In international practice, the market concentration coefficient is used to assess the competitive environment in the interbank market. The normative level of this indicator is 35%. Competitiveness is important in the conditions of interbank competition. The Herfindahl-Hirshman index (HHI) was used in this study. The Herfindahl-Hirshman index is one of the commonly accepted measures of market concentration and is used to determine market competitiveness. A market with an HHI below 1,500 is considered a competitive market, a market with an HHI between 1,500 and 2,500 is moderately concentrated, and a market with an HHI of 2,500 or higher is highly concentrated.[12]

From the above research, it can be concluded that market structure, cost and income are used as the main factors in determining competition and efficiency among banks. But "the assessment with this situation does not always justify itself, because the occurrence of different situations in the market shows different characteristics of banks".[4]

According to some scientists, "competitiveness is being resistant to competition, having the ability to win it. " [11]

One of our economists F. Mirzaev defined interbank competition as follows: "interbank competition refers to mutual relations in attracting resources in the interbank market and competition that occurs during the implementation of all types of banking services. " [4]

Prof. Sh. Abdullaeva et al. in his article "is dedicated to the study of the characteristics of interbank competition and its role in the development of the banking system. A critical analysis of the problems of the banking system of Uzbekistan was conducted, methods of strengthening the competitive advantages of commercial banks were proposed. [1] There is a set of rules that a bank must follow in order to achieve and maintain competitiveness in the long term, and now the competitive strategy is an integral part of the system of objectives of a commercial bank. As a traditional system of commercial bank goals, profitability, liquidity, risk minimization and the main goal of competitiveness are supplemented.[1]

3. Research methods.

We emphasize that the choice of tools and performance indicators for assessing the competitiveness of commercial banks depends on the current situation of a particular bank, its strategic directions and the level of development of the economy as a whole and the specific region where it exists.

4. Analysis and results.

In this work, theoretical information on bank competition, including the concept, nature and characteristics of interbank competition, as well as bank competitiveness, were analyzed. In the process of analysis, we found that the nature of interbank competition is most clearly reflected in such a feature as competitiveness. Also, the article shows the characteristics of the development of the competitive environment in the banking sector.

In modern banking practice, competition is seen not as a struggle of bank resources, but as a struggle of their strategies. The most promising strategies for ensuring the competitiveness of commercial banks in modern conditions are as follows: "first, production of new banking services similar to existing ones; secondly, to expand the production of additional services ; thirdly, production of new services taking into account the needs of the client's business; fourth, production and sale of a system of complementary non-banking services".[16]

The implementation of the strategy of increasing the competitiveness of the banking institution implies the implementation of a system of specific measures at different stages of the banking service life cycle: the main focus is on the stage of research and development; in the latter case, the stage of entering the market and the stage of growth; maturity stage; recession phase. Initially, the most important problem of the strategy is the problem of efficient use of available resources and the production of the largest number of banking products and services on this basis, which can be described as the production concept of the competitive strategy. A clear step forward will be the brand concept of competitive strategy. It focuses on quality rather than quantity of bank products and services. The next stage in the evolution of the competitive strategy was its sales concept, which put the problem of promotion of banking products in the first place.

Let's look at the most relevant and often mentioned banking strategy in modern literature through its components:[10]

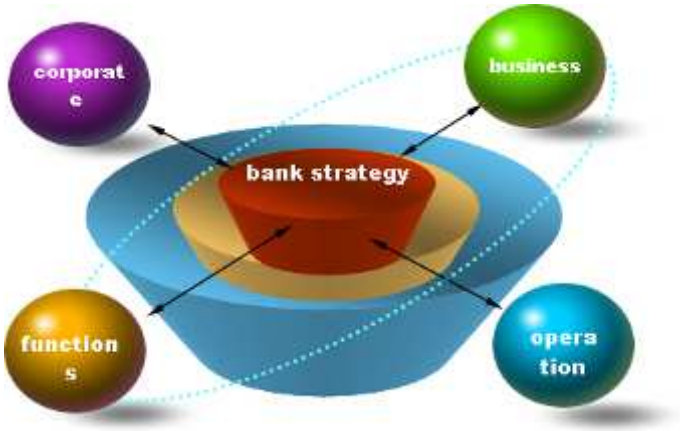

Figure 1. Components of bank strategy

In the strategies developed by commercial banks, their functional strategy is considered as the first feature to pay attention to. In this case, banks draw up a draft plan for the next years, taking into account their functional characteristics. In this, an important element of the bank is organizing work based on the concept of "functional-analysis-result-prognosis-result". The next strategy is considered to be a direct operational strategy, in which the main focus of the bank is to conduct its activities in the competitive market through the concept of "operational-customer-income-risk". In its business strategy, the bank organizes work based on the concept of "business-marketing-management-digital technology". At the last stage, the concept of "corporate-customer-quality-service" will be the basis. In general, the strategy of commercial banks should act in close connection with the bank's activities. On the contrary, if any deviations in the process of the strategy occur, it may cause the bank's activity to fail. This will cause the bank to face a crisis and leave the market of interbank competition.

Based on the obtained analysis, a block diagram of the strategic development map of commercial banks was developed, this diagram covers strategic factors in all areas, and its characteristics are determined by the following.

Table 1 Block diagram of the bank's strategic development map

Factors	Strategic goal	Indicators	Strategic actions
Increasing the finance of banking activities	Ensuring the financial stability of the bank in the interbank market	Increasing the level of capital adequacy; Increasing the level of profitability of assets	By increasing the level of investment activity improvement of banking operations. The new concept is to organize work based on the principle of "bank-digital marketing-customer".
Customers	Corporate business	Maintaining a position in the market through investment banking services	Development of new proposals for increasing commissions on transaction products
	Small and medium business	An increase in the number of non-bank services (digital) offered	Increase the share of sales through digital channels
	Retail trade	Increase the share of multi-product customers	Focus on the values and needs of consumers in the region
		Increasing the customer base	
Business processes	Bank products	Availability of the product in remote channels	Digitization of communication channels with customers, increasing the speed of the bank's response to market changes and customer demand
		Growth in the share of service operations transferred to remote channels	
	Inside the banking environment processes	Migration of internal processes to the IT landscape	Paperless internal work transition to the process. Wide application of digital technologies in work activities
	Bank branch network	Network optimization	Closure of branches conducting two identical operations in the territories
Employees	Corporate culture	Index of liabilities of bank employees	Study corporate culture to identify barriers, hold strategic sessions to develop strategic initiatives
		Motivation and Satisfaction Index	
	Technology	Increasing the number of digital technology implementations	Reorganization of business processes and determination of one's position in the competitive market

Applying the banking strategy through the above-mentioned concepts allows to create a mechanism of competitiveness. In many conducted studies, the following are proposed to be taken into account as a concept of bank competitiveness.

Bank competitiveness=quality+price+level of service

If we pay attention to these evaluation factors, first of all, the bank specializes in the quality, value of the service provided to customers, and the most modern methods of service delivery.

As a result of the development of competition between banks, the formulas for assessing competitiveness are also becoming more complicated. Right now, we propose the following formula for determining competitiveness.

Figure 2. The formula for determining bank competitiveness

The proposed formula includes two stages, and banks will first need to pay special attention to four important areas: strategy, service, service and quality. At the second stage, it is important to pay attention to the "strategy-plan", "technology-quality", "competitor-service" and "marketing-service" activities developed by banks. The first case is "strategy-plan", in which banks draw up a plan for its implementation based on the annual strategy. If the banks organize the right work in these two cases, the possibility of ensuring competitiveness against other banks in the competitive market will increase. In the second "technology-quality" activity, banks mainly consider the introduction of new technologies to improve quality. In the current conditions, the use of new technologies in ensuring the competitiveness of commercial banks in the market is one of the tasks that cannot be postponed. How many new technologies are provided by commercial banks for their customers will strengthen their market activity. "The digital transformation of banks is primarily aimed at better understanding the needs of customers - citizens and organizations. The process of digital transformation should be based on a digital strategy developed taking into account the characteristics and needs of a particular bank.

In the third "competitor-service" activity, commercial banks may be squeezed out of the market by their competitors if they do not change their service system. Therefore, banks maintain their activity or position in the market with their competitors by increasing the types of services. The fourth "marketing-service" activity, through the in-depth analysis of the market situation by the banks, an opportunity is created to increase the service activity by using the digital marketing system.

It is important to speed up the process of privatization of banks with a state share in the authorized capital in order to ensure the competitiveness of commercial banks and to develop interbank competition in the banking market. In particular, "in two years, three digital banks (TBC Bank, Anor Bank, Apelsin Bank) and 32 fintech companies specializing in providing remote financial services were established in Uzbekistan. Businesses make 85% of their payments remotely (a 7x increase since 2017). Eight banks are using the digital identification mechanism (Face ID) and the rest are completing tests.

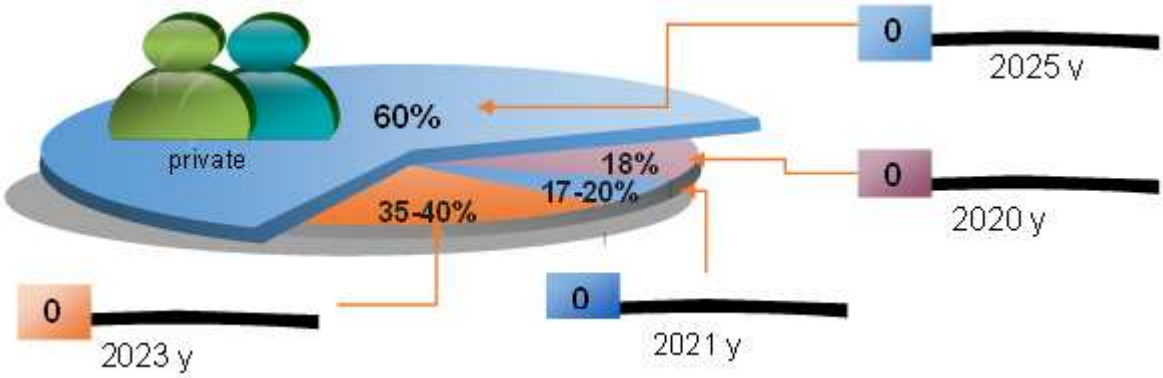

Figure 3. Privatization of commercial banks with a state share in the authorized capital

It is planned to increase the share of the private sector in the banking system of Uzbekistan from the current 18 percent to 60 percent in 2025.[17], the Central Bank has defined a number of directions for the implementation of the necessary mechanisms for the further development of the banking system. In particular, "in 2023, the process of privatization of large banks with a high state share will be brought to a logical conclusion, in particular, the shares of banks with a state share (Kishlok Kurilish Bank, Xalq Bank, Mikrokreditbank, Aloqa Bank, Agro Bank and Milliy Bank) will be put up for public auction (IPO) and moving into an active phase of transformation processes at Asaka Bank in cooperation with the European Bank for Reconstruction and Development. Starting from 2023, gradual abandonment of preferential lending (loans with interest rates lower than market interest rates) and directive lending (loans determined by local government bodies and state agencies), which have a negative impact on the competitive environment and cause an inefficient allocation of financial resources in stimulating economic activity to take measures".[9]

60% of the loans allocated in the banking system correspond to the share of loans allocated on the directive basis, and

precisely due to the influence of this factor, the share of problem loans in the loan portfolio of commercial banks remains at a high level. It is important to carry out relevant practical work on the basis of international experience, which has been started in order to create a competitive banking services market and ensure equal conditions for all participants.

Successful completion of the transformation and privatization of state-owned banks will significantly reduce the need to inject money from the state budget into the capital of banks in the coming years. The functioning of the banking system is ensured on the basis of market relations, the capital of banks is increased at the expense of foreign investments and private investors, and as a result of the effective distribution of cash flows in the economy, conditions are created for the expansion of the scale of lending to prospective projects.

The competitiveness of a commercial bank depends on the influence of a number of factors of the bank's external and internal environment, starting from the level of integration of the country into the world financial market, affecting the macro and micro levels. "Bank competitiveness is a constant dynamic process of competition between commercial financial institutions and banks, as a result of which all components try to provide strong results in the conditions of lending and financial services market".[8]

Despite the fact that the theoretical views on ensuring the competitiveness of commercial banks are different, their common feature is connected with the following factors. First, the factor of competitiveness of commercial banks is its customer service, and secondly, prevention of various risks affecting them through the use of new banking technologies. Thirdly, it will be necessary to evaluate the strategy with the right choice by the banks.

In our opinion, banks should maintain an optimal balance in the following areas in order to reduce the risks that have a strong impact on ensuring competitiveness.

According to some researchers, they are proposed to be implemented in three stages. "First, offering products and services should be driven by customer preferences, as they are the driving force of competition. Second, interbank competition should be market-based and encourage banks to compete with each other. Focusing only on non-market factors and incentives for some banks increases the risk of unfairness and negates the incentives to expand the banking business. Thirdly, they believe that it will be necessary to expand the opportunities of small and medium-sized banks to use new financial technologies, platform solutions and outsourcing. Our proposal is to apply digital marketing technologies by applying banking digital technologies as the fourth step after the third step. Commercial banks offer products to customers based on market principles. Fifth, it will be necessary to develop a strategy to anticipate any impact from the external environment on banks.[6]

Interbank competition develops depending on the level of improvement of the banks' product line. Analysis of the current state of interbank competition reflects a steady reduction in the number of banks, mainly due to the cancellation of licenses of financially unstable institutions.

In some researches, it is justified that "it analyzes the quality changes in the market of banking services and the strengthening of interbank competition, the conditions for the diagnosis of the competitive environment and the development of a set of marketing activities, as well as the main features that should be evaluated in relation to its activity"

Interbank competition is the most important parameter of the country's banking sector. Competition can weaken the banking system or destabilize the entire economy. Often, the development of competition in the banking sector and its existence is an important goal of the banking system and the state, which should ensure the improvement of banking services and the development of the banking sector. One of the main objectives of the central bank of any country is to determine the financial stability of the banking system. One of the factors affecting the stability of the financial system is the lack of competition.

Thus, we find that competition can promote the stability of the banking system, but it can also be counterproductive, so it is important to determine the level of competition that positively affects the stability of the banking system.

It is known that competition lowers market prices and thereby increases the availability of goods (in the case of interbank competition - mainly bank loans). The growth of competition in the banking market should ensure the reduction of the loan rate, which will allow attracting and stimulating investments in the country's economy. This can simultaneously lead to the expulsion of "excess" banks and the improvement of the situation of bank customers of the population and enterprises.

Consequently, there may be some opposition to the "competitive sustainability" approach. It can be "increased competition - decreased stability" or "increased competition - increased stability". The contrasting feature of interbank competition is the presence of such concepts as "competition-security" and "competition-". According to the first approach, competition leads to a weakening of banking activity, leading to a decrease in interest rates and profits. This encourages the bank to take on additional, competitive risk, which ultimately reduces stability.

Therefore, if we conclude from the above, it is important to include the following among the factors that commercial banks need to pay attention to when occupying their position in the interbank competition market.

- t is the most important element of ensuring the competitiveness of commercial banks in the market of interbank competition;
- in the market of interbank competition, banks always develop a strategy correctly, which ensures its superiority in the competitive market;
- in the strategy of banks, it is necessary to accept as the most important factor that the offering of products and services originates from the wishes of customers, because they are the driving force of competition;
- It is important to implement the indicators of "quality+price+service level+digital technology" in ensuring the competitiveness of commercial banks.[19]

5. Conclusions and suggestions

Based on the above analysis, the following conclusions and suggestions were formed:

1. Creating the right mechanism for the strategy developed by banks in the market of interbank competition ensures its advantage in the competitive market.

2. In the strategy of banks, it is necessary to accept as the most important factor that the offering of products and services originates from the wishes of customers, because they are the driving force of competition.
3. It is important to pay attention to the activities of "strategy-plan", "technology-quality", "competitor-service" and "marketing-service" in the strategy developed by banks.
4. In order for the strategy to work correctly in the interbank competition market, it is advisable to organize work based on the concepts of "functional-analysis-result-forecast-consequence", "operational-customer-income-risk" and "business-marketing-management-digital technology".
5. It is important to implement the indicators of "quality+price+service level+digital technology" in ensuring the competitiveness of commercial banks.

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